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ABSTRACT

This report card grades state child care tax provisions in effect for tax year 1993. States are rated according to a point system based on criteria identified in the National Women's Law Center's companion report, "Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions," which provides an overview of state child and dependent care (CADC) tax provisions and describes the best policies for states to adopt when designing such provisions. The higher the grade, the closer a state is to meeting the best policies for a CADC tax provision. Each state having a personal income tax, except Rhode Island and Vermont, is included. The grades are compiled by attributing a numerical value to 12 factors; the adequacy of the tax benefit--the amount of tax relief or refund that a family could receive under the provision--is considered the most important factor in assessing a state CADC provision. (Author/SW)

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MAKING THE GRADE FOR CARE

RANKING STATE CHILD AND DEPENDENT CARE TAX PROVISIONS

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The National Women's Law Center is a non-profit organization that has been working since 1972 to advance and protect women's legal rights. The Center focuses on major policy areas of importance to women and their families including employment, education, reproductive rights and health, family support and income security -- with special attention given to the needs of low-income women. Janice Steinschneider, the principal author of this report, is a Washington, D.C. attorney experienced in women's economic and reproductive health issues. Nancy Duff Campbell is Co-President and Verna L. Williams is Senior Counsel at the National Women's Law Center.

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MAKING THE GRADE FOR CARE

RANKING STATE CHILD AND DEPENDENT CARE TAX PROVISIONS

This report card grades state provisions in effect for tax year 1993 according to a point system based on the criteria identified in the National Women's Law Center's companion report, *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions*. *Making Care Less Taxing* provides an overview of state child and dependent care (CADC) tax provisions and describes the best policies for states to adopt when designing such provisions. CADC provisions are important because they help families recoup through the tax system some of their employment-related child and dependent care expenses.

The higher the grade, the closer a state is to meeting the best policies for a CADC tax provision. The adequacy of the tax benefit — the amount of tax relief or refund that a family could receive under the provision — is the most important factor in assessing a state CADC tax provision, but it is not the only one, as illustrated by the chart on the next two pages. Consequently, one state provision that ranks higher than another state provision may not always produce a larger maximum benefit.

REPORT CARD	
A-	Minnesota
B+	Hawaii
B-	Iowa and Oregon
C	Arkansas, Delaware, District of Columbia, Nebraska, North Carolina, Ohio
D	Idaho, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Montana, New Mexico, New York, Oklahoma, South Carolina, Virginia
F	Alabama, Arizona, California, Colorado, Connecticut, Georgia, Illinois, Indiana, Michigan, Mississippi, Missouri, New Jersey, Pennsylvania, Utah, Virginia, West Virginia, Wisconsin

The 17 states with the lowest grade are states with personal income taxes that do not include a child and dependent care tax provision.

The two states with personal income taxes calculated as a percentage of the federal income tax — Rhode Island and Vermont — are not graded, although they indirectly provide a benefit to families with employment-related care expenses by incorporating the federal child and dependent care credit. The nine states that have no personal income tax also are not graded: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

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GRADES

State	Adequacy	Credit or Deduction	Refundability	Sliding Scale	Maximum Income Limit	Expense Limits	Dependents Covered
AR	5	10	7	5	5	7	8
DE	14	10	0	5	5	7	8
DC	10	10	0	5	5	7	8
HI	21	10	14	10	5	7	8
ID	7	0	0	0	5	7	8
IA	20	10	14	10	4	7	8
KS	6	10	0	5	5	7	8
KY	5	10	0	5	5	7	8
LA	0	10	0	5	5	7	8
ME	6	10	0	5	5	7	8
MD	5	0	0	0	5	7	8
MA	4	5	0	0	5	7	8
MN	26	10	14	10	2	7	8
MT	3	0	0	10	1	4	8
NE	6	10	0	5	5	7	8
NM	18	10	14	0	0	5	0
NY	5	10	0	5	5	7	8
NC	10	10	0	5	5	7	8
OH	11	10	0	10	4	7	8
OK	5	10	0	5	5	7	8
OR	26	10	0	10	4	7	8
SC	5	10	0	0	5	7	8
VA	4	0	0	0	5	7	8

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GRADES

Types of Care Covered	Relationship to Federal Credit	Indexing	Included on Short Form	Treatment of Married Couples	Total	State
8	2	0	0	0	57	AR
8	2	0	0	-3	56	DE
8	4	0	0	0	57	DC
8	6	-1	0	0	88	HI
8	4	0	0	0	39	ID
8	2	-1	-3	0	79	IA
8	0	0	0	0	49	KS
8	2	0	-3	0	47	KY
8	2	-1	0	0	44	LA
8	2	0	-3	0	48	ME
8	4	0	-3	0	34	MD
8	4	0	0	0	41	MA
8	4	3	0	0	92	MN
8	6	-1	-3	0	36	MT
8	2	0	0	0	51	NE
8	6	-1	-3	0	57	NM
8	2	0	0	-3	47	NY
8	4	0	0	0	57	NC
8	4	-1	0	0	61	OH
8	2	0	0	0	50	OK
8	4	-1	0	0	76	OR
8	4	0	0	0	47	SC
8	4	0	-3	0	33	VA

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THE GRADING SYSTEM

The following criteria determined each state's score. For a fuller discussion of these criteria, see *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions*.

Adequacy: The maximum dollar value of state provisions varies considerably. The greater the dollar value of the provision, based on the maximum amount provided for families with care expenses for two children or dependents, the more points it receives. Maximum Points: 30

Credit or Deduction: Because tax credits are more advantageous to lower-income families and deductions are more advantageous to higher-income families, provisions that are credits do a better job of targeting assistance to families that need it most. Provisions that are credits receive higher points. Maximum Points: 10

Refundability: When a credit is refundable, a family gets a check back from the state if the family's credit exceeds the tax owed. This is especially important to lower-income families who owe less in taxes. Maximum Points: 14

Sliding Scale: Some provisions incorporate a sliding scale for determining the amount of tax benefit, which provides more assistance to lower-income families than higher-income families and helps to target assistance to those families who need it most. Maximum Points: 10

Maximum Income Limit: Some provisions eliminate any benefit for families above a particular income level. This reduces the provision's ability to apportion taxes according to family resources and, if the maximum is set too low, denies assistance to many families who need help with employment-related care expenses. The more stringent the limit, the fewer points the provision receives. Maximum Points: 5

Expense Limits: All provisions limit the dollar amount of expenses eligible for assistance. Limits that are lower than the average cost of care leave families with a large amount of expenses for which they receive no assistance, which reduces their ability to ensure that children and adults receive good care. Provisions with more restricted expense limits receive fewer points. Maximum Points: 10

Dependents Covered: Families need help with care for children and adult dependents who cannot care for themselves. Provisions that do not cover adult dependents or provide less coverage for them receive fewer points. Maximum Points: 8

Types of Care Covered: Families need the flexibility of choosing in-home or out-of-home care arrangements. Provisions that do not cover both types of arrangements equally receive fewer points. Maximum Points: 8

Relationship to Federal Child and Dependent Care Credit: Provisions that base the state credit or deduction on the amount of the federal credit incorporate some of its limitations. Independent credits receive more points than federally-linked credits, and federally-linked credits that address important limitations of the federal credit resulting from linkage receive more points than those that do not. Maximum Points: 6

Indexing: Numerical values in state provisions erode with inflation, reducing the value of the provision to families. Provisions that include numerical values and automatically adjust these numbers for inflation receive points; states that do not adjust these values lose points. Maximum Points: 3

Short Form: Some states have short-form tax returns that lower-income families are more likely to use than higher-income families. Failure to include the provision on the short form means that some eligible families may not receive the credit or deduction. States with short forms that do not include the child and dependent care provision lose points. Maximum Points: -3

Treatment of Married Couples: Some states require that married couples filing separately take the credit or deduction in a way that minimizes its value to the family. These provisions lose points. Maximum Points: -3